

1 CHAIRPERSON JAMES: At this time I'd like to open up  
2 the panel for questions from Commissioners. I'd also encourage  
3 you all to engage in a dialogue among yourselves if you have  
4 questions or comments that you'd like to make.

5 Commissioner Bible?

6 COMMISSIONER BIBLE: Senator Maddy, in your prepared  
7 comments you argue that you feel that if the initiative is  
8 successful in California to expand Tribal gaming that that will  
9 lead to full-scale gambling in the State of California, and then  
10 that in turn will threaten the horse racing industry. Would you  
11 elaborate on that position?

12 SENATOR MADDY: Yeah. Let me preface by saying that  
13 I was the first person in the Legislature in California to  
14 introduce a constitutional amendment which would have allowed the  
15 Indian Tribes in California to have the video lottery games or if  
16 you will, slot machines. It was an interesting phenomena,  
17 because as Vice-chairman of the committee that was first  
18 introduced I had everybody against me. The vote was 1 to 11; I  
19 lost.

20 My theory was that I wanted to help the Indian  
21 Tribes, but I wanted to have the slot machines restricted to the  
22 Tribal lands that were in existence in 1988. Now, that created a  
23 problem within the Tribes in the sense that I felt very strongly  
24 that the Achilles Heal in terms of expansion of gaming and  
25 getting support of the public was that people are supportive of  
26 Tribal gaming as long as Tribal gaming is restricted to Tribal  
27 lands. Racetracks didn't like the idea of having Indian Tribes

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1 have a leg up, if you will, by having slot machines. Card rooms  
2 didn't like it. So that was the result of the 1 to 11 vote.

3 I think that if the initiative passes in the form  
4 that it does, number one, it takes away any control at all from  
5 the Chief Executive in terms of negotiating a compact. It  
6 doesn't restrict in any way the access of the Indian Tribe, and  
7 in my opinion, allows them to either trust lands or other ways to  
8 have casino wagering on Tribal lands anywhere they want in the  
9 state of California by purchasing property anywhere. Now, that  
10 may be, I'm sure, going to be a contentious issue in the  
11 initiative, but it's my view. My view is that the Indian Tribes  
12 then by either initiative or any other way develop the right to  
13 have casino wagering. It's my view that the convention centers,  
14 the large hotels, the racetracks and everybody else will next  
15 follow-up with an initiative to allow casino wagering anywhere in  
16 California. That has been the tradition in the sense that once  
17 the lottery hit it began to expand. The -- once the initiative  
18 passed, the Governor strongly opposed the expansion of gaming.  
19 When the people spoke as loudly as they did with the initiative  
20 on lottery, then he viewed it slightly differently. And I think  
21 that by the initiative passing I think we'll see another  
22 initiative that will follow-up that will allow casino wagering  
23 anywhere in the state.

24 I don't believe that slot machines at horse tracks  
25 benefits racing. I think -- just as it's been mentioned here, I  
26 think the entrepreneurs, the operators of the racetracks will  
27 soon find out that it's a lot easier to have slot machines and  
28 care for them than it is to worry about the manure and the horses

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1 and all that sort of thing that goes along with operating a  
2 racetrack.

3 CHAIRPERSON JAMES: Thank you.

4 Commissioner Loescher?

5 COMMISSIONER LOESCHER: Thank you, Madam Chairman.

6 I'd like to ask a question of Timothy Smith.

7 I'm interested in the presentation here of Mr. Harper  
8 about the Del Mar Racetrack and its non-profit kind of approach  
9 to structuring and re-investment and the service it provides to  
10 horse race gamblers across the nation. But how typical is that  
11 across American? Is this an anomaly, or is there more for profit  
12 type horse racing ventures across America?

13 MR. SMITH: There's a broad range. I think that  
14 might also be a good question for Tom Meeker in the next panel to  
15 address. Tom is CEO of Churchill Downs, which is a successful  
16 public company. So there's a variety. There are many racing  
17 associations here in California. Oaktree Racing Association  
18 operates at Santa Anita nonprofit. It's a broad, broad variety  
19 across the board. Keeneland nonprofit, yet publicly traded  
20 companies are in the mixes as well. But the racetracks experts  
21 should comment on that as well.

22 MR. HARPER: Well, let me just -- I think that Del  
23 Mar is probably unique in its position as a state-owned facility,  
24 and a not-for-profit company running the operation of the racing.  
25 I think it's -- it concerns all of us in racing that perhaps our  
26 bottom lines are controlled by companies other than those that  
27 all have racing's well being at heart. We're seeing with the  
28 advent of San Ruiz, Santa Anita -- the real estate investment

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1 trust was taken over by Medatrast (ph.). This is a company that  
2 to my knowledge has never been in the racetrack business before.  
3 It's a very bottom line oriented company. Will they be bottom  
4 lined enough to think that maybe Arcadia Racetrack will look a  
5 lot better as a series of hotels and real estate development; I  
6 don't know. It would be of great concern, especially to us in  
7 California that feel that San Anita is one of the flagships of  
8 racetracks.

9               These things, I think, concern us and that's why we  
10 rushed down to Del Mar, even a state-owned facility in the late  
11 '60's, early '70's, to establish this kind of a facility.  
12 Personally, I wish more tracks would follow this, but realizing  
13 the economic value of certain real estate, it's hard to do this  
14 in many places.

15               MR. CHAMBLIN: The three major tracks in New York;  
16 Belmont, Aqueduct and Saratoga, are not-for-profit. Meadowlands  
17 and Monmouth Park in New Jersey are both owned by the New Jersey  
18 Sports and Exposition Authority, and which are quasi-state  
19 facilities. And there are dozens of agricultural fairs  
20 throughout the country that offer either flat racing or harness  
21 racing.

22               COMMISSIONER LOESCHER: Madam Chairman, just one  
23 more.

24               I'm interested in comments made by Senator Maddy in -  
25 - I'm from Alaska. In Alaska we have more fisherman than fish  
26 sometimes, and I'm interested in the notion of possible limited  
27 entry into gaming in California. Everybody is concerned about  
28 their competitive position, and the other guy getting more than

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1 the other guy. But there seems to be a chance for saturation of  
2 the market, although California's the biggest state in America.  
3 With 32 million people it seems like it could handle a little bit  
4 more, but is there any concept or thought among policy makers  
5 about limited entry into gaming in this state?

6 SENATOR MADDY: Well, you go back to FCA3, the way I  
7 introduced it was to take all of the statutory prohibitions  
8 against gaming, which are essentially -- well, they're extensive.  
9 They say no Nevada-type casino wagering, limited in terms of the  
10 games that are played, and take those out of the statute and put  
11 those into the Constitution. My theory was that -- and I didn't  
12 hide my strong feeling that I liked the position that  
13 Thoroughbred racing had in California. We have survived through  
14 the years as having Nevada next door to us when Nevada was the  
15 only major gaming state in the nation. We have survived with  
16 card rooms. We've survived a great number of difficulties and  
17 still had a thriving sport. I was going to take all of the  
18 statutory prohibitions of gaming, put them into the Constitution  
19 with the one exception being that the Indian Tribes may have slot  
20 machines on their Tribal lands. This was, I thought, a great  
21 combination of giving the Indian Tribes the right to continue to  
22 progress they have with wagering on their Tribal lands and  
23 benefit their people, and at the same time put a lid, if you  
24 will, essentially on existing gaming in this state. That we set  
25 up a regulatory and enforcement process through the Attorney  
26 General's Office so that parlor rooms could not be expanded.  
27 Make it tougher for local jurisdictions. And card rooms have  
28 always been traditionally a local county or city decision. Put

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1 greater restrictions on them, and then effectively horse racing  
2 was not going to expand much because we're already topped out, if  
3 you will. There's not that great a fan base, so that in part was  
4 my theory. I think that, again, one of the dangers of the  
5 initiative is that it's -- we have a hundred Tribes in this  
6 state. There are in terms of Tribal lands now some 90 or 99  
7 different locations that are identified Tribal lands. We have a  
8 number of Tribes that are identified that have not necessarily  
9 any land, so to be the great concern in terms of what the  
10 proposition brings forth is this tremendous expansion of gaming.  
11 And I think just being as political as I am, once it evolves and  
12 the people began to say this is here, then why not have everyone  
13 enjoy it, and I think that changes the whole state of California  
14 if we have full-scale casino wagering.

15 CHAIRPERSON JAMES: Could I have each of you just  
16 briefly in one or two sentences address the question: Slot  
17 machines good or bad for horse racing? Slot machines at  
18 racetracks?

19 SENATOR MADDY: I've already spoken as to that.

20 CHAIRPERSON JAMES: Yes, you have.

21 MR. CHAMBLIN: Yes. Our organization doesn't have a  
22 formal position on slot machines at racetracks, but in areas  
23 where slot machines are available with the competition, I believe  
24 that racetracks should have the same opportunity to compete in  
25 order to stay in business. And that's been the case in a number  
26 of instances, including Delaware, Iowa, Louisiana, West Virginia,  
27 Rhode Island, a few other states.

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1 CHAIRPERSON JAMES: In terms of its impact on the  
2 industry, Mr. Harper, good or bad?

3 MR. HARPER: Bad. I do feel it's bad. I came into  
4 this industry because I love the horses. I was born with horses.  
5 We always had a ranch. I rode -- I was involved in racing with  
6 my parents at an early age. Racing is my business. It's my  
7 love, it's my passion. Slot machines are not my passion. I  
8 think when you put them in you might as well kiss racing goodbye.  
9 Your staff, Doug, spoke of tracks that are comfortably in the  
10 black. I'm not sure any of us that are in the black are  
11 comfortably in the black, but we certainly recognize those  
12 facilities that are not in the black that have to do something to  
13 survive financially. When they bring in other forms of gaming  
14 they're going to survive, but not as racetracks. They're forced  
15 into this, unfortunately, because of the proximity of a lot of  
16 the same types.

17 CHAIRPERSON JAMES: Mr. Manfuso?

18 MR. MANFUSO: I think it's strictly a state-by-state  
19 issue. Chairman, that's where it comes down. I think the  
20 problem, and it is a problem, is that the focus when tracks get  
21 involved they don't develop quality racing, they don't market or  
22 promote their product, and they don't get into customer service  
23 and work on user friendly facilities. And it scares you because  
24 it's very much like a quick fix. It may look good today, but  
25 five years down the road -- and I don't think there's enough data  
26 to really make a firm decision -- but where are you.

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1 MR. SMITH: As a new national umbrella entity with  
2 participating members in all camps on this issue, we have no  
3 official position.

4 CHAIRPERSON JAMES: Some of my friends are for it;  
5 some of my friends are against it, and I'm going to vote with my  
6 friends.

7 MR. SMITH: That's a good summary of our position. I  
8 will say this, seriously. We do view it as a state-by-state  
9 issue. There are locations in this country where the competitive  
10 pressures are so intense that the industry, our industry, is  
11 unified to seek alternative revenue streams. They vary as to the  
12 form.

13 Just one last point. Some additional revenue streams  
14 are definitely needed because purses are -- owners like Mr.  
15 Manfuso spend in the aggregate about \$2 billion a year seeking a  
16 portion of \$900 million in purses. And that's having all kinds  
17 of impacts. The best American blood stock. Some of it is going  
18 to Japan where purse levels are higher. We need to do something  
19 to address the purse issue, but there's obviously deep division  
20 to whether slot machines are the answer.

21 CHAIRPERSON JAMES: Mr. McCarthy?

22 MR. MCCARTHY: I don't know which one of the panel  
23 should address this, but I think we've read some newspaper clips  
24 that our staff puts together each week talking about the  
25 gubernatorial race in Maryland, and that it's large issue there  
26 as to whether or not slot machines should be put on the  
27 racetracks in Maryland. In any states where those who are  
28 participants in racetracks are actively advocating slots, is

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1 there a clear definition of where the revenues, the profits from  
2 the slots would go? Would they go to the purses? Would they  
3 strictly be used to further horse racing, or is it rather just  
4 another source of profit for those who participate in racetracks?

5 MR. SMITH: Well, I can speak briefly to it from what  
6 I know, and there's people in this industry that are a lot  
7 smarter and up-to-date on it than I am.

8 I think a lot of tracks that want to put in slot  
9 machines and remain a racetrack are obviously under pressure from  
10 their horsemen's organizations that if they are going to put slot  
11 machines in there, a percentage has to go towards racing itself.  
12 Toward either purses and also toward those programs that support  
13 Thoroughbred racing. So if you're going to do both, there's  
14 probably a lot of pressure to get the money into the racing.

15 MR. MCCARTHY: Well, just to take it a step further.  
16 The argument that I've heard whenever this has been discussed is  
17 that racing is an important part of culture in many parts of  
18 America, and they're fine animals. People derive a great deal of  
19 pleasure from seeing these animals well bred and trained, enter  
20 into a competition. Wouldn't it be a saner policy -- I'm frankly  
21 not keen on expansion of slots anywhere, but wouldn't it be a  
22 saner policy on the part of those that are trying to save  
23 competitive horse racing in America to take all of the profits  
24 from slot machines or any other form of gambling they want to put  
25 and devote it to helping the industry survive, rather than  
26 allowing the investor-owners of the racetracks merely have  
27 another profit center.

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1 MR. SMITH: Unfortunately, sanity has never been one  
2 of our highlights in this industry at times. You are absolutely  
3 right, Mr. McCarthy. I think that it should go there. I think  
4 the revenues from slot machines, if you're going to have them,  
5 other forms of gaming, if they are going to save our industry,  
6 that's where the money has to go.

7 MR. MCCARTHY: I think in some states that's what's  
8 happened. Legislators have required that some of the profits, a  
9 portion of. My concern with that is it's a short-term fix. My  
10 view would --

11 CHAIRPERSON JAMES: I'm sorry. I didn't recognize  
12 Commissioner Bible, then we'll go to Mr. Lanni.

13 COMMISSIONER BIBLE: For anyone on the panel, what do  
14 you see the potential for growing the handles through home  
15 wagering opportunities over the next five or ten years? I know  
16 we have Mr. Meeker on the next panel, and I've heard that  
17 conversation about home wagering opportunities here in California  
18 and other places.

19 MR. CHAMBLIN: I think the issue of technology and  
20 what it does to racing in home wagering or in account wagering,  
21 as we prefer to talk about, is no more than figuring out a way to  
22 handle the technology that's there. And when we started in the  
23 mid-'80's with full card simulcasting it actually started  
24 simulcasting the Derby, bringing the Derby to tracks around the  
25 country, making the Derby Day a special thing in California or in  
26 New York or whatever other racing facility was operating on that  
27 day.

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1           We could do that because we could send the signal.  
2   And all of a sudden the public starts telling you things that the  
3   technology's there. You can't put your head in the sand with  
4   technology, and the technology is there today to develop account  
5   wagering. And I think that -- and Tom Meeker will address it in  
6   the next panel, but I think that is a huge avenue that this  
7   industry will pursue, given the opportunity, into the 21st  
8   Century. I don't think there's any question about it.

9           Madam Chairman, if I could, one comment on Maryland  
10   and the election issue in Maryland. It's a very difficult  
11   situation in the state right now, because we have racing that is  
12   prospering and half of us think it's a good idea and half of us  
13   don't. But very interesting is a public policy issue setting  
14   aside the question of whether or not is it guys trying to sell on  
15   the basis of we want to fund social programs. And I just have a  
16   difficult time. I really have a difficult time because that's  
17   where the tax on pari-mutuel wagering started. The historic fact  
18   is that we used to contribute significant taxes. The only  
19   problem is that we made big capital investments in buildings.  
20   When people finally woke up 10, 15 years down the road they said  
21   wait a second, we don't have the money to make these additional  
22   capital investments. We don't have the money to market, and yet  
23   the state, with all due respect to the politicians, they were  
24   already in our pocket taking a third of our gross revenues off  
25   the top without even participating. That's part of the history  
26   and part of the problem of racing in this country today. It's  
27   taken 15 years for the states to gradually get out of our  
28   business, or at least tax us as other businesses.

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1 MR. SMITH: If I could give a brief response to  
2 Commissioner Bible's question about account wagering. I think  
3 the industry does believe it has potential. It is one of those  
4 potential, additional revenue streams. The issue and problem is,  
5 is it going to be regulated or is it going to continue as now,  
6 largely unregulated. It is occurring -- phone wagering has  
7 occurred extensively throughout the country. What states are  
8 increasingly realizing is they're better off regulating it,  
9 taxing it, tasking the industry with dealing with any sort of  
10 compulsive gambling or underage gambling issues and regulating it  
11 and making it an official part of the game rather than let it  
12 continue to happen offshore, illegally, which is pretty prevalent  
13 now.

14 CHAIRPERSON JAMES: I think we'll get into that issue  
15 a little bit more in our next panel.

16 Commissioner Lanni?

17 COMMISSIONER LANNI: Thank you. I'm not sure who I  
18 direct this to, but a number of you have mentioned that maybe a  
19 reduction or obliteration of the taxes that states take from your  
20 industry on a regular basis would be very helpful. However, Tim,  
21 you mentioned that there are, I think, \$900 million in purse  
22 money available for \$2 billion in expenses. I mean, it's very  
23 difficult for me to see any business operating for very long when  
24 its revenue is less than half of its expenses, and any reduction  
25 in taxes would be delaying the inevitable unless some other form  
26 of revenue were found to support the industry. Would you agree  
27 with that?

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1 MR. SMITH: Well, I definitely think that in addition  
2 that's really part of what the NTRA is all about. No other sport  
3 that's nationally televised and has been around as long as  
4 Thoroughbred racing has the TV ratings and the viewers and 34  
5 million in attendance every year operates without national  
6 sponsorship revenue, lots of other streams of revenue we are  
7 going to chase hard. But a reduced tax burden would clearly  
8 help. New revenue streams would help, and there are some other  
9 revenue streams for owners, as you know. Breeding revenue from  
10 successful, particularly from the horses that have proven  
11 successful through pedigrees, racing, et cetera. So it's not  
12 quite as bad for owners as maybe those numbers imply, but clearly  
13 additional revenue and additional purses need to be part of  
14 racing's future.

15 SENATOR MADDY: If I could add something to that. I  
16 was hopeful that I would be able to announce that we had a  
17 substantial license fee reduction in California, but  
18 unfortunately it's going to go hand in hand with budget, if we  
19 ever get the budget. And as Governor McCarthy knows, sometimes  
20 that's very difficult to get, even in the good days. We have a  
21 \$4 billion surplus. It's hard to imagine we couldn't get a  
22 budget. But in any event, I agree with Tim. The industry has to  
23 build, otherwise it just doesn't ever pencil out. We pay the  
24 largest license fee now in California in any other state. We're  
25 going to reduce it if my bill, which I think is going to pass, is  
26 successful.

27 We've designated what our goals should be. To  
28 finance the fairs. We always have, since 1933 in California.

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1 Have the regulatory enforcement that the Horse Racing Board  
2 financed. Do our major projects, a million each, at the  
3 Research Center and the UC Davis, as well as the analytical  
4 laboratory at UC Davis, and then to give monies to the charities  
5 and local government. That's what we think is the proper way.  
6 And that's about \$40 million a year, which we are content with as  
7 a sufficient license fee in California. We've been paying up to  
8 \$150 million a year as license fees in California over the last  
9 15 years.

10 COMMISSIONER LANNI: Another question. We have a  
11 responsibility as a Commission to submit a report to varying  
12 entities. The President, Congress, the governors of the several  
13 states, Native American Tribal governments, no later than June  
14 20th of 1999. And we have the responsibility of submitting our  
15 findings, which I am sure we're going to be quite capable of  
16 doing on this subject as well as others.

17 However, my question is we also have the ability to  
18 make recommendations to those entities. If you were sitting here  
19 and you had the opportunity to recommend to us what we might  
20 recommend for your industry, what would that be. And I'm not so  
21 sure who would want to take that.

22 SENATOR MADDY: Well, for California I go back, I'm  
23 still a strong proponent of what I proposed a long time ago. We  
24 have survived in California perhaps because we have the Pacific  
25 Ocean on one side. Our racing situation's much different than if  
26 we were in Maryland or Kentucky as being surrounded by river  
27 boats, casinos, and all the rest of the gaming activities. So I  
28 would be perfectly prepared and willing to continue the vitality

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1 of the Indian Tribal activities as long as they're restricted to  
2 Indian lands, put other restrictions and allow those of Nevada to  
3 continue with what they've done for years, and allow us in  
4 California to have a prosperous and vital Thoroughbred racing  
5 there situation.

6 COMMISSIONER LANNI: In other words, just leave us  
7 alone.

8 SENATOR MADDY: Just get us back to where we were and  
9 not have any more intrusion. I think that the industry can  
10 survive under tough conditions because we have a very strong,  
11 vital industry, but we're not going to survive if this becomes  
12 another Nevada. I opened the racetrack in Las Vegas in 1952 as a  
13 groom, and I think there were more people leaving after the  
14 second race than were attending. I stayed there until the end  
15 and then packed up and came home.

16 CHAIRPERSON JAMES: No more intrusion. How about no  
17 more expansion; is that what you're saying?

18 SENATOR MADDY: No more expansion, certainly.

19 CHAIRPERSON JAMES: Any other panelist like to  
20 respond to that? It's a golden opportunity to make  
21 recommendations.

22 MR. SMITH: Can't pass it up. I'd say reduce taxes  
23 and realize that account wagering is not expansion. It's  
24 something to be regulated and controlled and added to the mix of  
25 distribution of our product, of our sport.

26 MR. HARPER: I have to agree with the last two  
27 fellows. We're not scared of regulation. We certainly are  
28 heavily regulated in this industry, and for the most part it's --

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1 they're pretty good regulations. We have to be left alone, I  
2 think, to some degree in our endeavors. We can't -- we have to  
3 deal with competition on a level playing field, and we'll  
4 survive, I think with the NTRA. This business is getting  
5 organized, and I think we have a bright future, and I do think  
6 our expansion has to be a convenience to our customer, and I  
7 think we'll survive okay.

8 CHAIRPERSON JAMES: One final comment.

9 MR. CHAMBLIN: Yes. Madam Chair, I don't believe  
10 that the Commission should advocate doing away with account  
11 wagering or any other possible technological developments that  
12 might benefit this sport. I believe those decisions should be  
13 left up to the state, state legislatures, and the racing  
14 commissions. And when a state approves pari-mutuel wagering, as  
15 43 states have, that state should give the opportunity to  
16 everybody within its borders to wager on races within that state  
17 if he or she chooses to do that. And some of those individuals  
18 may live 500 miles from a racetrack.

19 CHAIRPERSON JAMES: Thank you, very much. And with  
20 that I'm going to offer our thanks to this particular panel, and  
21 again I appreciate your testimony. As we finish out our next  
22 year I would encourage you to stay in close contact with the  
23 Commission and with the staff, and we will make sure that your  
24 complete testimony is a part of our official record, and would  
25 ask as we get into the drafting and recommending stages that you  
26 will still make yourselves available to us for your advice and  
27 counsel.

28 Thank you very much.

**NEAL R. GROSS**

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1 PANEL: Thank you.

2 CHAIRPERSON JAMES: I'm going to let staff have the  
3 opportunity to take down those name tags, and as I introduce our  
4 next panel I would ask them to each come forward as their name is  
5 called.

**NEAL R. GROSS**

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